



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m., July 23, 2002. The following members were present:

Jody B. Olson  
Dennis L. Johnson  
J. Kirk Sullivan  
Susan K. Simmons  
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon	Mountain Pacific Investment Advisors
Bill Palumbo	Mountain Pacific Investment Advisors
Drew Black	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co
Casey Maslonka	DB Fitzpatrick & Co
Chris Growney	Clearwater Advisors
Doug Bates	Clearwater Advisors
Mike Boren	Clearwater Advisors
Jim Shakelford	Idaho Education Association
Brent Nye	Boise School District
Matt Freeman	LSO-BPA
Robert Schmidt	Milliman USA
James Coleman	PERC
Charlie Brown	REAI
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John R. Doner	PERSI
Gay Lynn Bath	PERSI

### EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(b) authorizes the same. By motion duly made by Trustee Simmons seconded by Trustee Sullivan and unanimously approved, the Board went into executive session at 8:36 a.m. They reconvened in regular session at 9:03 a.m.

Chairman Olson said that in the executive session, the Board had reviewed the performance of Executive Director Winkle. The Board is pleased with his performance and believes that management is improving in the key areas they reviewed. No salary increases and bonuses are allowed under the state's current economic and budget crisis; the Board will consider that for the Director when the compensation freeze is lifted.

### OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Simmons, the Board unanimously approved the minutes of the June 25, 2002, regular meeting of the Retirement Board as submitted.

Mark Taylor Appeal: Chairman Olson said that at the June Board meeting, the Board heard an appeal from member Mark Taylor regarding his gain sharing allocation. The Board had received written copies of Mr. Taylor's June presentation and information on the Griggs v. DuPont case, which he had referenced at the June meeting. By motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the Board voted to deny Mr. Taylor's claim and directed staff to prepare and issue a final decision reflecting that denial.

### PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated July 23, 2002, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

A new fiscal year, but the same story. Corporate profits remain weak, expectations for future growth in profits are dropping, and concerns about the risk underlying projections, particularly concerns about the accuracy of accounting statements, are rising.

As a result, the equity markets have continued to drop sharply through the middle of July. The Wilshire 5000, for example, has dropped 17% over the month to date.

Given the overall dismal state of the markets, PERSI's performance has been either as or better than expected, with Gov/Corp bonds being the best performers, and with emerging markets managers being the best equity performers.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. CSAM continues its disastrous performance and is being actively reviewed for termination.

Mr. Maynard's report stated the current value of the fund as of July 23, 2002 was \$5,792,118,817. The fiscal year-to-date return percentage is negative 8.3 and the month-to-date returns are the same as we've just begun a new fiscal year.

Mr. Maynard told the Board that on July 30 the Private Equity Committee will meet. While Trustee Simmons represents the Board at these meetings, other Trustees are welcome to attend.

Saying that recent PERSI returns represent the downside of equity investing, Mr. Maynard said the fund is doing better than we could expect given the market. Our strategic policies are helping and global managers have performed better than expected. Answering a question from Trustee Simmons, he said that while Capital Guardian is a new PERSI manager, he added their historical global equity product composite returns to his report for comparison purposes. There was considerable discussion of the current markets. Mr. Maynard said market watchers are waiting for August 15, the date when CEO's sign their reports to the SEC saying the company's earnings reports do not contain material misstatements or omissions. People fear a huge amount of bad news and this uncertainty factor is crushing the market.

The TIPS investment, overall, has been a good performer compared to the rest of the markets. PERSI holds these bonds not for performance, but primarily for diversification. Mr. Maynard discussed the allocation and his rebalancing plans.

Trustee Ahrens told the other trustees that her trip to the investment conference in Prague was very productive. She talked to a variety of people in similar positions and validated that we're doing the right thing being invested in international markets. She expects to meet with Mr. Maynard and review her questions and notes with him. She did not agree with one presentation that promoted the "catching falling knives" theory. Mr. Maynard agreed that the benefits would not outweigh the risks of using that theory for PERSI investments. Ms. Ahrens said the conference was time well spent. Chairman Olson thanked her for her time investment. The Trustees congratulated Ms. Ahrens on her appointment as Acting Chief of Staff to Governor Kempthorne during the re-election campaign period.

Mr. Maynard told the Board that because of poor performance and the departure of key personnel from the firm, unless the Board disapproves, he intends to terminate CSAM as a PERSI manager effective today. Chairman Olson said the Board is comfortable with staff direction in this matter. Mr. Maynard discussed how the CSAM portfolio would be liquidated and distributed among current managers. Consultant Doug Dorn agreed with the decision to terminate CSAM.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. All expect market volatility during the next few months. There is plenty of cash in the U.S. economy as investors' confidence is shaken and they are holding cash positions. Managers do not expect a long-term decline compared to that in Japan, saying U.S. markets have a transparency of information flow that is lacking in Japan.

Endowment Fund Investment Board Request: Mr. Maynard reviewed the request from the State of Idaho EFIB that had been previously provided to the Trustees. They asked that the Retirement Board authorize CIO Robert Maynard and his staff, as necessary, to consult with and advise the Land Board and the EFIB and its staff as they review and restructure their portfolio models over the next six months. The request noted that the Retirement Board itself undertakes no duties as trustee or otherwise with respect to the request. The Board encouraged Mr. Maynard to share his expertise with the EFIB as he has done in the past with other state agencies.

#### EXECUTIVE DIRECTOR

Decision on Actuarial Assumptions: Mr. Winkle reviewed his memorandum dated July 16, 2002 that had previously been provided to the Board. The memo provided details on the salary increase assumption and the termination of employment assumption. PERSI's actuary recommended a reduction in the salary increase assumption two years ago. No action was taken at that time due to an uncertain labor market. Trustee Johnson said he had reviewed the report from Milliman and staff and agreed that the salary increase assumption would be reasonable at 4.75%. By motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the Board approved the staff recommendation to use an actuarial assumption of a 4.75% salary increase and to use a service-based chart for termination of employment assumptions.

#### FISCAL

Expense Reports: Financial Officer James Monroe reviewed his memorandum to the Board dated July 15, 2002, which provided an overview of fiscal issues. He then reviewed the Administrative and Portfolio expense reports for the month ended June 30, 2002, and the Out-of-State Travel Report which had previously been furnished to the Board. Noting that several managers are attending the NASRA conference, Chairman Olson asked how the decisions are made on such issues. Director Winkle said he encourages his managers to attend one national conference each year and this year NASRA just happens to offer the "meat & potatoes" workshops and breakout sessions that seemed to deal with the individual manager's issues. They may choose from several conferences such as NCTR, GFOA and NASRA offered each year. The Chairman said the Board supports staff in their efforts to keep current on retirement issues. Mr. Monroe provided a copy of the Proposed Budget Request for FY2004 to the Trustees. Trustee Johnson commended staff on keeping the administrative expenses under the 50 basis point target.

No budget enhancement requests for the year 2004 were made. PERSI is pursuing a request for additional legal services through the Attorney General's office because legal issues have increased with the addition of the Choice Plan and we are also experiencing more legal appeals. There was a short discussion of the billing mechanisms and how additional legal services would be budgeted. The Attorney General's office would request the service in their budget for FY2004 and bill PERSI in FY2006. Therefore, PERSI would request the funding in our FY2006 budget. Trustee Simmons oversees fiscal decisions and will continue to confer with staff on fiscal issues.

Chairman Olson asked staff to arrange a meeting with DFM to again discuss the issue of appropriating portfolio expenses. Traditionally, trustees are not asked to manage a portfolio in a

trust like PERSI with the constraints of legislative appropriation of funds. Mr. Monroe and Mr. Winkle will arrange a meeting.

#### LEGAL:

Pending Rules Docket # 59-0105-0201 & 59-0106-0201: Deputy Attorney General Goodsell had previously provided copies of rules and a memorandum summarizing them. These rules implement changes authorized and required by EGTRRA and required by the IRS as a condition of receiving a favorable letter of determination. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted pending rules and the amendment to temporary rules as set forth in the notices.

#### COMMUNICATION:

On-Line Guideline: Communications Officer Becky Reeb introduced Carol Peterson, the technical writer who has created PERSI's On-Line Guide. Ms. Reeb said the project was conceived as a way to get the "tribal knowledge" from the staff and the collection of PERSI procedures and past history documented. Ms. Peterson explained the process she used in gathering the knowledge from each employee, her design and her review process. She provided a live demonstration of the guide showing the search features and navigation tools. The guide includes memos, rules, individual cases, related topics and updates. Eventually, updates and additions will be handled by PERSI staff. Chairman Olson said he appreciated the staff time devoted to this project. Getting correct answers to our members is important. Ms. Peterson is also working on a project to provide electronic board packets to the trustees. Monthly reports and other materials that are now provided in hard copy will be available for downloading by the trustees. Mr. Winkle said the On-Line Guide is simple, useable and has not been an expensive 4-year project. Many other retirement systems are interested in using this method.

#### EXECUTIVE DIRECTOR

Contribution Rate Issues: Executive Director Winkle continued the discussion of how, when and why contribution rates are changed. At the request of the Chair, he reviewed the slides he had shown at the Coeur d'Alene meeting which were summarized into decision points. It is projected that the recent financial markets have brought the fund above the maximum 25-year amortization level. There are a number of alternatives the Board may choose keep the fund in compliance with the law. There was discussion of some of the alternatives. Any contribution rate increase will be shared, by law, by both employers and employees. Effect on budgets as well as employee take-home pay was discussed. At the August Board meeting, staff will provide some modeling information to the Board to assist in the decision. The Board expects to have preliminary actuarial information at the September meeting and may make a decision on contribution rates at the October meeting.

VPA Disability Claims Process Review: Membership Manager Judy Aitken reviewed the PERSI Disability plan which is administered by a Third Party Administrator, VPA. Reviewing the claim history, she told the Board the number of applications reviewed has dramatically increased. During the fiscal year ending June 30, 2000 we reviewed 52 cases; that number increased to 141 for the fiscal year ending June 30, 2002. Some of the increase may be due to a law change giving coverage to members with 5 years of service rather than only those with at least 10 years of service. Education and knowledge of the program may also be a factor.

Mr. Goodsell said that when he attends legal conferences, he is hearing that claims are up nationwide. Ms. Aitken and her assistant, Judy Shock, conducted an on-site visit to VPA and reviewed their process. They were pleased with the attention given to PERSI cases and the thorough job of investigating each applicant's claim. Trustee Johnson recommended having a report on disabilities in another six months to keep the Board informed. Ms. Aitken will report again in January.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. Mr. Winkle told the Board that we have learned of inconsistencies in how various school employers value the unused sick leave accounts and accrual of sick leave. Because all employers in each group pay the same percent of salary into the funds, there should be an equitable distribution of benefits from the funds. Staff will work with the groups over the next several months to attempt to establish common practices of sick leave accrual and valuation methods. Deputy Director Doner said some of the valuation methods raise the value by 14% over regular employees. Mr. Winkle said the Board may want to consider different fee schedules to maintain contribution/benefit equity.

OTHER BUSINESS: Retiree Charlie Brown who represented the Retired Teacher's Association at the meeting, said he had participated in a test run of the PERSI retirement workshop presentation by trainers Maxine Thomas and Bill Duncan. The purpose was to ensure that the materials presented include all the things potential retirees need to consider. Mr. Brown commended the trainers on an excellent presentation and on their request for input from actual retirees. Chairman Olson thanked Mr. Brown for taking the time to attend that presentation and for his comments to improve the training.

#### FUTURE BOARD MEETINGS

Tuesday, September 24, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, October 22, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, November 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:32 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director